

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	39.00	39.00	41.00	41.00	39.00	41.00	2.00	5.13 %
Personal Services	2,629,550	2,814,050	3,153,326	2,954,616	5,443,600	6,107,942	664,342	12.20 %
Operating Expenses	550,637	561,882	679,463	598,412	1,112,519	1,277,875	165,356	14.86 %
Equipment & Intangible Assets	0	0	5,000	0	0	5,000	5,000	0.00 %
Total Costs	3,180,187	3,375,932	3,837,789	3,553,028	6,556,119	7,390,817	834,698	12.73 %
State Special	3,159,782	3,354,897	3,812,384	3,527,623	6,514,679	7,340,007	825,328	12.67 %
Federal Special	20,405	21,035	25,405	25,405	41,440	50,810	9,370	22.61 %
Total Funds	3,180,187	3,375,932	3,837,789	3,553,028	6,556,119	7,390,817	834,698	12.73 %

Agency Description

Mission Statement: To fairly balance the long-term interests of Montana utility and transportation companies and the customers they serve.

The Department of Public Service Regulation (PSR) regulates the operations of public utility and transportation industries that operate in the state. Five commissioners, elected from districts throughout Montana, form the Montana Public Service Commission (PSC) that oversees the PSR. Each commissioner serves a four-year term.

Agency Highlights

Department of Public Service Regulation Major Budget Highlights	
♦	2011 biennium funding is about 13 percent (\$835,000) greater than 2009 biennium funding largely due to increases in personal services costs, including a request for an additional 2.00 FTE
♦	Budget increases are funded primarily from state special revenue derived from a tax on regulated utilities
♦	The agency has not provided an estimated timeframe for accomplishment of some of the objectives provided

Agency Discussion

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

2009 Biennium Major Goals

No goals related to this agency were reviewed during the interim.

2011 Biennium Major Goals

The following provides an overview of major goals for the 2011 interim.

Goal 1 - To consider and process rate, service, and authority applications.

Historical benchmarks - Utility & Transportation dockets opened: FY 2006-204, FY 2007-210, FY 2008-194

- Objective – Process and complete consideration of Qwest's Alternative Form of Regulation (AFOR) filing in D2008.1.6 regarding the justness and the reasonableness of rates, schedules, and terms and conditions of services
- Objective – Process and complete Phase II of NorthWestern Energy's electric and gas cost of service and rate design filing

LFD COMMENT

The goal and the related objectives provided are directly related to the primary functions of Public Service Regulation. The objectives are specific, measurable, achievable, relevant, and in most instances time bound. The legislature may wish to:

- Request that the agency provide an estimated timeframe for completion of the objectives listed above
- Discuss with the agency how the components of the budget request impact accomplishment of this goal
- Recommend that progress toward this goal be monitored by the legislature during the interim

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Public Service Regulation Prog						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000 Total State Special Funds	\$ 3,159,782	99.4%	\$ 3,812,384	99.3%	\$ 3,527,623	99.3%
02281 Public Service Commission	3,159,782	99.4%	3,812,384	99.3%	3,527,623	99.3%
03000 Total Federal Special Funds	20,405	0.6%	25,405	0.7%	25,405	0.7%
03011 Natural Gas Safety Pgm	20,405	0.6%	25,405	0.7%	25,405	0.7%
Grand Total	<u>\$ 3,180,187</u>	<u>100.0%</u>	<u>\$ 3,837,789</u>	<u>100.0%</u>	<u>\$ 3,553,028</u>	<u>100.0%</u>

Public Service Regulation (PSR) is funded primarily by a fee that is levied on regulated companies, based on funding appropriated by the legislature for a specific fiscal year. Fees are deposited directly into a state special revenue account and are based upon a percentage of the gross operating revenue from all activities regulated by the commission for the calendar quarter of operation (69-1-402, MCA). The department also administers a small amount of federal grant funds.

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Public Service Regulation					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<u>Direct Bearing on Agency Operations</u>					
Telecom Performance Assurance Plans	69-3-870	State Special Revenue	\$4,824	\$4,824	\$4,824

Elected Official Proposals

Vacancy Savings Exception

The Public Service Commission requests that the agency be exempt from the application of vacancy savings. The executive budget as proposed includes a reduction in funding for personal services of 4 percent for applied vacancy savings (applied to all positions except elected officials). Exemption of the agency from this requirement would require an increase in funding of \$93,035 and \$93,328 state special revenue in FY 2010 and 2011, respectively (\$186,363 for the biennium).

LFD COMMENT

The agency experienced an estimated vacancy rate of 3.7 percent during FY 2008.

Adjust Staff Salaries to Market Rates

The Public Service Commission requests \$334,273 state special revenue each year (\$668,546 for the biennium) to increase staff salaries from the current percentages of market (approximately 89 percent of the 2008 market survey) to 100 percent of the market rate. The agency believes this would assist it in recruitment and retention of qualified staff.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00 %	3,180,187	3,180,187	6,360,374	86.06 %
Statewide PL Adjustments	0	0	0	0.00 %	177,489	159,643	337,132	4.56 %
Other PL Adjustments	0	0	0	0.00 %	478,839	212,094	690,933	9.35 %
New Proposals	0	0	0	0.00 %	1,274	1,104	2,378	0.03 %
Total Budget	0	0	0		3,837,789	3,553,028	7,390,817	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				244,512						251,947
Vacancy Savings				(93,035)						(93,328)
Inflation/Deflation				4,864						5,610
Fixed Costs				21,148						(4,586)
Total Statewide Present Law Adjustments				\$177,489						\$159,643
DP 1 - Pay Retirement Benefits - Bien	0.00	0	205,883	0	205,883	0.00	0	0	0	0
DP 4 - Request for Two FTE	2.00	0	170,322	0	170,322	2.00	0	170,353	0	170,353
DP 5 - Match Pipeline Safety Federal Award	0.00	0	7,500	5,000	12,500	0.00	0	7,500	5,000	12,500
DP 6 - Building Rent/Maintain NRRI Membership	0.00	0	13,714	0	13,714	0.00	0	19,776	0	19,776
DP 7 - Computer Replacement	0.00	0	31,955	0	31,955	0.00	0	0	0	0
DP 9 - Travel	0.00	0	9,465	0	9,465	0.00	0	9,465	0	9,465
DP 10 - Broadcast PSC hearings - OTO	0.00	0	35,000	0	35,000	0.00	0	0	0	0
Total Other Present Law Adjustments	2.00	\$0	\$473,839	\$5,000	\$478,839	2.00	\$0	\$207,094	\$5,000	\$212,094
Grand Total All Present Law Adjustments				\$656,328						\$371,737

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** – The agency typically hires individuals into positions at about 80 percent of the market rate. The agency target market ratio is 100 percent. The agency actual market ratio at fiscal year end was approximately 99 percent of the 2006 market survey. The agency anticipates this will decrease to about 89 percent when compared to the 2008 market survey. The agency-submitted budget request included a request for funding to move all employees who have completed training assignments to 100 percent of market effective July 1, 2009, but this request is not included in the executive budget. Elected officials compensation is calculated as specified in statute
- **Obstacles** – The agency indicates funding is an obstacle
- **Vacancy** – The agency identified rate analyst and attorneys as positions that were difficult to recruit and retain due to outside market competition
- **Legislatively applied vacancy savings** – The legislature did not apply vacancy savings (4 percent) to this agency for the 2009 biennium. The agency-submitted budget request included a request to continue this exception but it is not included in the executive budget
- **Pay Changes** – The agency utilized the 0.6 percent funding in the 2007 pay plan for an across the board pay increase with a larger increase to positions that were under 100 percent of market. Pay changes for other than pay plan adjustments were given for competency pay and market adjustments
- **Retirements** – The agency indicates that 18 percent its employees are eligible for retirement and has requested funding for the compensated absence liability associated with six employees who are eligible for full retirement during the 2011 biennium. The agency budget submission included proposals to fund retirement payouts, move all employees to 100 percent of market, and exempt the agency from applied vacancy savings as part of a strategy to address retirements and retention of employees. The executive budget request includes only one of these items, funding for retirement payouts. The agency indicates that the specialized nature of regulation and the broad types of companies regulated, combined with a small staff, does not allow for in depth cross training

DP 1 - Pay Retirement Benefits - Biennium - This decision package requests \$205,883 state special revenue in FY 2010 for personal services costs of staff retirement payouts. The PSC anticipates up to 21 percent of the staff will retire in the next biennium resulting in leave payouts above normal personal services costs.

**LFD
COMMENT**

The legislature may wish to consider making this a biennial appropriation so that the funding could be used in either year of biennium if a retirement occurred.

DP 4 - Request for Two FTE - This decision package requests \$340,675 state special revenue for the biennium to support 2.00 additional FTE including 1.00 FTE staff attorney and 1.00 FTE Utility Rate Analyst. Additional staffing is requested due to increased regulatory issues, statutory deadlines and increased need for expert advice.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Attorney FTE -To assist in processing PSC cases more efficiently and within statutory deadlines; to provide more comprehensive legal review of PSC orders and other documents issued by the PSC; to assist in general PSC rule review and revision. Rate Analyst FTE - Workload demands, including the PSCs expectation to address regulatory issues in a more proactive manner. Existing staff resources are stretched thin as they strive to provide reasoned, expert advice to the PSC on the complex technical issues confronting the agency.

Project Outcomes: To meet the needs as described above under justification.

Performance Criteria: Measurement will necessarily be both objective and subjective. Regarding the attorney, objectively progress will be measured by assessing whether an additional attorney has increased the speed and effectiveness of processing filings before the PSC. Also, with respect to the rule review project, the PSC can measure whether an additional attorney has helped to move that project to completion. Some expected progress from adding an additional attorney, however, may be difficult or impossible to measure objectively. For example, an additional attorney should result in more careful consideration of legal issues, including more thorough research; this should result in a better legal foundation for PSC orders and other documents, and should make PSC decisions less vulnerable on judicial review. In addition, another attorney should improve the quality of writing contained in PSC documents, simply by providing more work team time for drafting and editing. These improvements may be difficult to measure, but they are important nonetheless.

Regarding the rate analyst, the agency expects the additional FTE will "deepen the bench" by enhancing the PSC's ability to explore and analyze important regulatory issues that are now often given short shrift because existing staff are fully employed addressing the PSC's case load. Examples of issues that might merit more of the PSC's attention include: demand response initiatives, demand-side management program improvements, renewable energy possibilities, and rate design and pricing alternatives. Deepening the bench also provides the opportunity to train new rate analysts to replace the longtime PSC rate analysts who will retire in the next several years. Objective measurement could be accomplished by monitoring the PSC's activities related to new or expanded regulatory issues.

Milestones: The request is for two permanent FTE. Therefore, "completion" is not applicable to the request. It is expected that the additional FTE's would provide on-going benefits to the PSC.

FTE: The additional attorney will work under the supervision of the administrator of the legal division. The rate analyst will be supervised by either the Rate Design or Revenue Requirements Bureau Chief and the Administrator of the Utility Division.

Funding: Positions would be funded using the PSC tax which is collected from the regulated companies.

Obstacles: The challenges will be finding qualified individuals interested in learning and doing the work required at the PSC and integrating the new FTE's into the on-going work of the PSC, with the goal of improving the work product of the PSC.

Risks: The PSC has functioned for many years with three staff attorneys and one attorney administrator. Similarly, the PSC functions now with the existing number of Utility Division staff. If the proposal is not adopted the PSC will continue to function and get the required work done. However, if the proposal is not adopted the required work may not be done as well; and discretionary but important work may not be done at all, or may not be done as quickly or carefully. The PSC's fundamental mission is to serve the public interest by regulating in those areas over which the PSC has jurisdiction. Concretely, to give one example, the better the PSC performs, the more assurance there is that rates paid for essential utility services are just and reasonable. This proposal is designed to help the PSC better serve the public interest.

LFD COMMENT

The agency did not provide specific milestones regarding time frames for recruiting and hiring additional staff. However, the agency requests that these positions be funded beginning July 1, 2009, which can be viewed as the milestone for completion of the recruitment and hiring process. If the agency does not expect to complete the recruitment and hiring process by this date the legislature may wish to reduce the funding for these positions to a level that reflects the date the agency anticipates completion of the hiring process.

LFD ISSUE

Outcome Measures Not Provided

The agency did not provide information on how outcomes or performance of these additional FTE will be measured. The legislature may wish to ask how the addition of these FTE will impact achievement of the agency goals and objectives and how this impact will be measured during the 2011 biennium.

DP 5 - Match Pipeline Safety Federal Award - The Pipeline Safety federal grant award is expected to increase \$5,000 each fiscal year over previous awards due to recent law changes requiring the Public Service Commission to conduct additional inspections. This decision package requests \$15,000 state special revenue and \$10,000 federal funds for the biennium for the federal Pipeline Safety grant and the required 60 percent match. The grant award is expected to increase \$5,000 a year over previous awards due to recent law changes requiring the PSC to conduct additional inspections.

DP 6 - Building Rent/Maintain NRRI Membership - This decision package requests \$33,490 state special revenue for the biennium for office space rental costs increases (3 percent per year) and an increase in membership dues for the National Regulatory Research Institute (NRRI). NRRI serves as the National Association of Regulatory Utility Commissioners research resource. Membership dues will increase 20 percent in the next biennium.

DP 7 - Computer Replacement - This decision package requests \$31,955 state special revenue in FY 2010 for replacement of 22 desktop computers (\$28,006), 7 notebook computers (\$10,500), and 1 server (\$5,000). The agency computer replacement request is based on a four-year replacement cycle as recommended by Information Technology Services Division, Department of Administration. The total costs are anticipated to be \$43,506 and the base budget for this category is \$11,755.

DP 9 - Travel - Additional travel costs of \$9,465 in each year of the biennium are requested for new commissioner training and increased in-state travel to coordinate and attend statewide PSC hearings.

DP 10 - Broadcast PSC hearings - OTO - This decision package requests \$35,000 state special revenue as a one-time-only appropriation for FY 2010 for the infrastructure required to incorporate PSC weekly work sessions and other public PSC meetings into the Television Montana (TV MT) system. TV MT currently broadcasts the legislature and other state government activities on cable TV stations in Billings, Bozeman, Helena, and Missoula and is working to expand coverage to reach about 30 Montana cities by January 2009. In addition, TV MT programming is made available to elementary and secondary schools throughout the state through the Office of Public Instruction.

New Proposals

New Proposals										
Program	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
01	0.00	0	1,274	0	1,274	0.00	0	1,104	0	1,104
Total	0.00	\$0	\$1,274	\$0	\$1,274	0.00	\$0	\$1,104	\$0	\$1,104

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.